DAU Acquisition Training Symposium

'Achieving Dominant Capabilities through Technical Excellence and Innovation'

Performance Based Logistics

Delivering Affordable Readiness

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7 April 2015

Agenda

- Definition and Tenets
- Why PBL?
- When to start?
- Policy & Guidance
- Training and Implementation Initiative
- PBL Guidebook, Training & Tools
- PBL in Action – NAVSUP Perspective

Performance Based Logistics (PBL)

Performance Based Logistics (PBL) – *An outcome based support strategy that delivers an integrated,* ***affordable product support solution*** *designed to* ***satisfy warfighter requirements while reducing Operating and Support (O&S) costs***

PBL ≠ CLS

Balances Warfighter readiness and affordability

PBL Outcome Focus Has Evolved

2004: Effectiveness Focus

Performance

O&S Cost ($)

***Increased* Performance + Cost Neutral (or Better)**

2014: Efficiency Focus

Performance

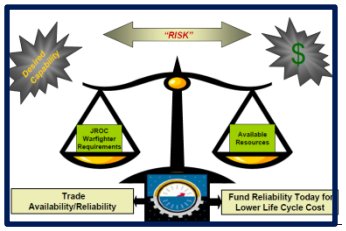
O&S Cost ($)

***Decreased* Cost + Performance Neutral (or Better)**

Reality: Optimized Affordable Readiness

O&S Cost ($)

Performance



***Increased* Performance AND *Decreased* Cost**

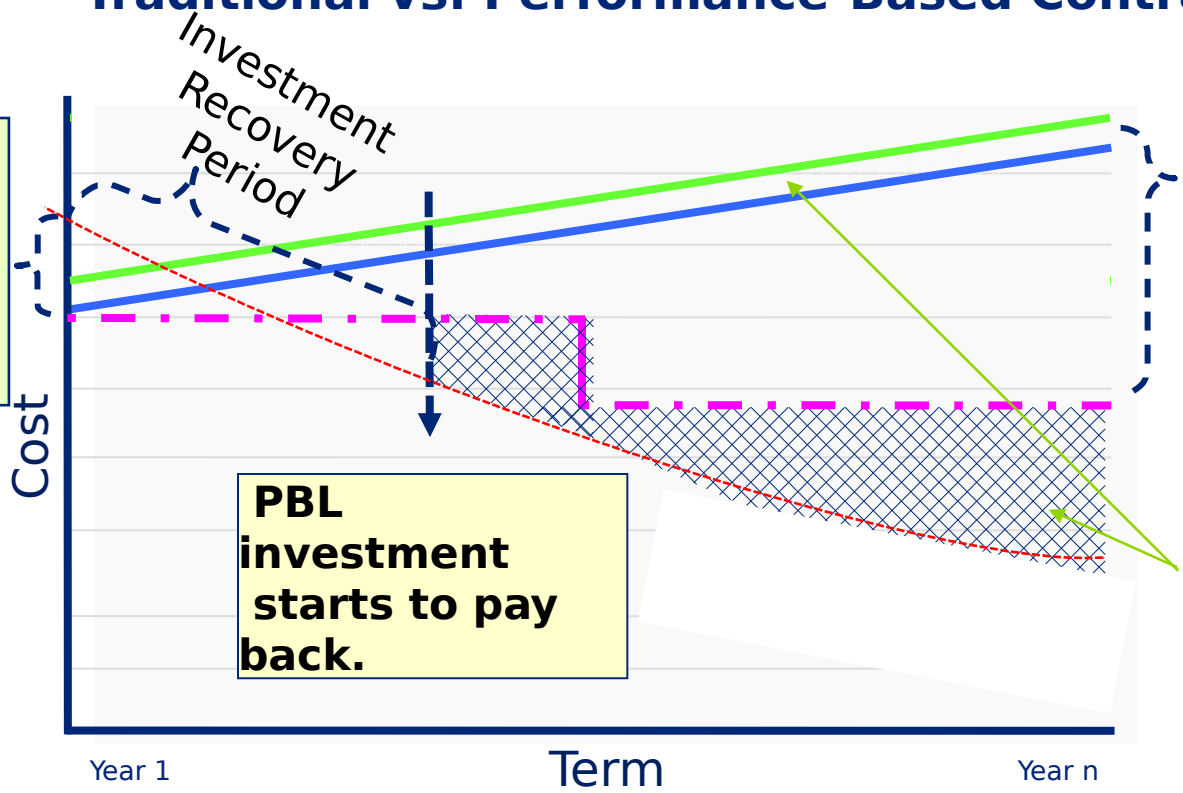
Why PBL Works

- DoD obtains comprehensive performance package
  - Not individual parts, transactions, or “spares & repairs”
- Approach reverses vendor incentive
  - Fixed price performance arrangements tied to warfighter outcome turn traditional revenue centers into cost centers - motivate vendor to reduce failures/ consumption through innovation
  - Incentivizes *“less I use, the more profit I can make”* vice a *“more spares and repairs I can sell, the more profit I can make”* mentality
- Long term commitment enables vendor to balance risk vs. investment
  - Support Providers with system knowledge and investment oriented business models innovate to convert cost avoidance into performance gains

It’s about Motivating Productivity Through Innovation

Cost-Value Benefits of PBL

Traditional vs. Performance-Based Contract*



Investment to improve reliability or service.

Total cost for Government is lower.

PBL investment starts to pay back.

Providers' profits are higher (area between the lines is bigger with PBL).

*Notional Example

Contract duration facilitates investment in reliability and service

PBL Tenets

Derived from PBL tenets developed by UT for USAF

Arrangement

- Acquire clearly defined **Warfighter relevant outcomes** - not just sustainment services or replacement equipment
- Use **measurable and manageable metrics** that accurately assess the product support provider's performance against delivery of targeted Warfighter outcomes
- Provide significant **incentives** to the support provider that are **tied to** the achievement the **outcomes**
- Firm Fixed Price contract (or **variant of a FFP arrangement**) is generally the preferred contract type – but fixed or cost + incentive type contracts can work
- Provide **sufficient contract length** for the product support provider **to recoup investments** on improved product (e.g. MTBF) and sustainment processes (e.g. manufacturing capabilities)

Organization

- **PBL knowledge and resources are maintained** for government team and product support providers
- **Leadership champions the effort** throughout their organization(s)
- **Everyone** with a vested interest in the outcome is **involved**
- **Supply chain activities are aligned to the desired PBL outcome**, vice disparate internal goals
- ***(Sha*** r and support provide

Used as Assessment Criteria in PBL Study

Expected Results from Well-Crafted PBL Arrangements

- Increased Material Availability
- Decreased Logistics Response Times
- Decreased Repair Turn-Around-Times
- Near Elimination of Awaiting-Parts Problems
- Major Reduction in Backorders
- Reduced Logistics Footprint
- Improved Reliability
- Proactive DMSMS & Obsolescence Mitigation
- …While Spending the Same **or Less**

…By Incentivizing Product & Process Improvement

NAVSUP
Naval Supply Systems Command
Weapon Systems Support

Effective PBL Starts During Acquisition

- Sustainment Strategy
  - Options for Gov't/Commercial work split
- Analysis
  - RAM-C
  - Sustainment Requirements decomposition/ allocation
  - Performance metrics
  - Cost estimates/ should cost initiatives
- Investment
  - Reliability/ Maintainability
  - RDT&E/Procurement funded
- Options/provisions for tech data delivery
  - Enable competitive sourcing
  - Usage data for demand forecasting

- Interim Contractor Support
  - Demand variability may not lend itself to PBL structure
  - Cost and usage data delivery to support increasing performance basis for follow on contracts
  - Procurement/O&M funded
  - Developed and executed through program

- **Performance Based Arrangements**
  - Sufficient cost and performance history data to support clear outcome-based contract metrics
  - Part demand and/or labor hour requirements stability supports predictability of future demand to enable consistent pricing.
  - Competitive market exists or there is leverage to structure internal competitive pressure in a sole-source situation.
  - Sufficient operational life remains (typically 5-7 years) in the product to be an attractive capital investment opportunity for potential product support integrators and providers.
  - Developed and executed through sustainment community / Materiel Commands
  - O&M funded (working capital funds used to facilitate longer term contracts)

rangements are influenced through
n decisions…developed and executed
in sustainment

NAVSUP
Naval Supply Systems Command
Weapon Systems Support

Have PBLs Delivered on Expectations?

DoD's *Sense* of the PBL Experience: 1998 –2012

- Readiness impact distinctly positive
- Benefit/cost ratio questionable

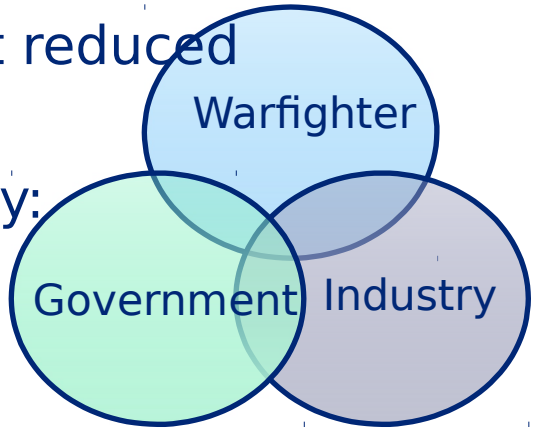
Identified need for fact-based analyses documenting impact of PBLs on cost:
MR & Deloitte Team chartered to address gap & end debate

Project Proof Point Study

- Hypothesis: Sustaining materiel via PBL arrangements delivers improved readiness at reduced life cycle costs

✓Phase I Methodology:
- 10 "Middle Dives"
- 1 "Deep Dive"

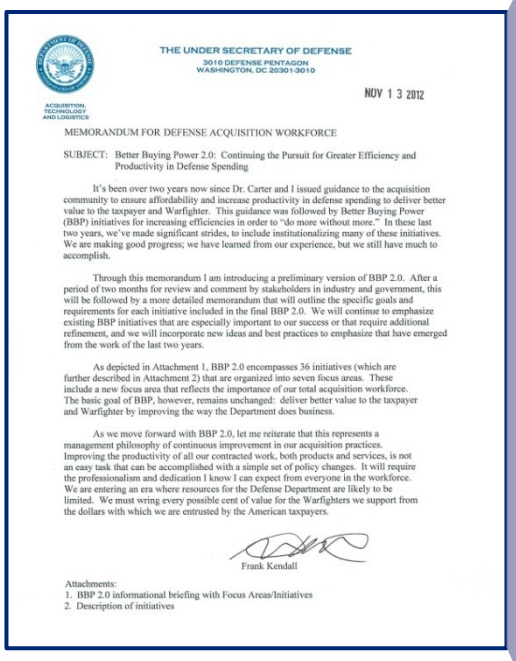
✓Phase II Methodology:
- 6 "Middle Dives
- 5"Deep Dives"



Properly Structured & Executed PBLs =
Increased Readiness at Reduced Costs

Better Buying Power 2.0 & PBL

- Achieve Affordable Programs
- Control Costs Throughout the Product Lifecycle



THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, DC 20301-3010

NOV 1 3 2012

ACQUISITION, TECHNOLOGY AND LOGISTICS

MEMORANDUM FOR DEFENSE ACQUISITION WORKFORCE

SUBJECT: Better Buying Power 2.0: Continuing the Pursuit for Greater Efficiency and Productivity in Defense Spending

It's been over two years now since Dr. Carter and I issued guidance to the acquisition community to ensure affordability and increase productivity in defense spending to deliver better value to the taxpayer and Warfighter. This guidance was followed by Better Buying Power (BBP) initiatives for increasing efficiencies in order to "do more without more." In these last two years, we've made significant strides, to include institutionalizing many of these initiatives. We are making good progress; we have learned from our experience, but we still have much to accomplish.

Through this memorandum I am introducing a preliminary version of BBP 2.0. After a period of two months for review and comment by stakeholders in industry and government, this will be followed by a more detailed memorandum that will outline the specific goals and requirements for each initiative included in the final BBP 2.0. We will continue to emphasize existing BBP initiatives that are especially important to our success or that require additional refinement, and we will incorporate new ideas and best practices to emphasize that have emerged from the work of the last two years.

As depicted in Attachment 1, BBP 2.0 encompasses 36 initiatives (which are further described in Attachment 2) that are organized into seven focus areas. These include a new focus area that reflects the importance of our total acquisition workforce. The basic goal of BBP, however, remains unchanged: deliver better value to the taxpayer and Warfighter by improving the way the Department does business.

As we move forward with BBP 2.0, let me reiterate that this represents a management philosophy of continuous improvement in our acquisition practices. Improving the productivity of all our contracted work, both products and services, is not an easy task that can be accomplished with a simple set of policy changes. It will require the professionalism and dedication I know I can expect from everyone in the workforce. We are entering an era where resources for the Defense Department are likely to be limited. We must wring every possible cent of value for the Warfighters we support from the dollars with which we are entrusted by the American taxpayers.

Frank Kendall

Attachments:
1. BBP 2.0 informational briefing with Focus Areas/Initiatives
2. Description of initiatives

- **Incentivize Productivity & Innovation in Industry and Government**

  Increase effective use of Performance-Based Logistics:

  "…the Department can achieve improved readiness at significant savings if PBL business arrangements are properly structured and executed. The Department will broadly implement effective PBL strategies."

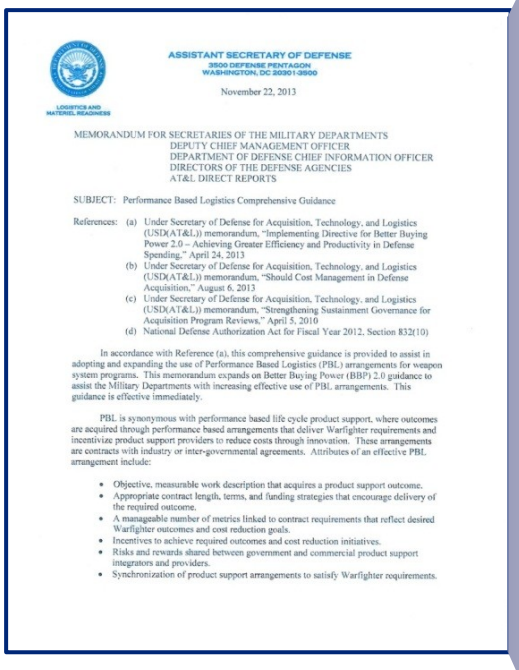
- Eliminate Unproductive Processes and Bureaucracy
- Promote Effective Competition
- Improve Tradecraft in Acquisition of Services
- Improve the Professionalism of the Total Acquisition Workforce

Better Buying Power 2.0

Increase effective use of Performance-Based Logistics – Actions:

- The Assistant Secretary of Defense for Logistics and Materiel Readiness (ASD(L&MR)) will provide a comprehensive guidance document designed to assist the Services to adopt and expand PBL
- ASD(L&MR) will develop and publish the "PBL Guidebook,"
- CAEs will provide a baseline status brief on the implementation of PBL …and continuing on an annual basis
- DAU will incorporate PBL learning assets into curricula for the Life Cycle Logistics, PM, Contracting, and Systems Engineering career fields
  - Incorporate PBL learning assets into curricula for Life Cycle Logistics
  - Incorporate PBL learning assets into curricula, PM, Contracting, and Sys Engineering career fields
- ASD L&MR provide a dedicated team of skilled PBL expertise to train Components' program offices and sustainment organizations

PBL Guidance Memorandum (Nov 22, 2013)
for Component Acquisition Executives & Others



ASSISTANT SECRETARY OF DEFENSE
3500 DEFENSE PENTAGON
WASHINGTON, DC 20301-3500

LOGISTICS AND MATERIEL READINESS

November 22, 2013

MEMORANDUM FOR SECRETARIES OF THE MILITARY DEPARTMENTS
DEPUTY CHIEF MANAGEMENT OFFICER
DEPARTMENT OF DEFENSE CHIEF INFORMATION OFFICER
DIRECTORS OF THE DEFENSE AGENCIES
AT&L DIRECT REPORTS

SUBJECT: Performance Based Logistics Comprehensive Guidance

References: (a) Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) memorandum, "Implementing Directive for Better Buying Power 2.0 – Achieving Greater Efficiency and Productivity in Defense Spending," April 24, 2013
(b) Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) memorandum, "Should Cost Management in Defense Acquisition," August 6, 2013
(c) Under Secretary of Defense for Acquisition, Technology, and Logistics (USD(AT&L)) memorandum, "Strengthening Sustainment Governance for Acquisition Program Reviews," April 5, 2010
(d) National Defense Authorization Act for Fiscal Year 2012, Section 832(10)

In accordance with Reference (a), this comprehensive guidance is provided to assist in adopting and expanding the use of Performance Based Logistics (PBL) arrangements for weapon system programs. This memorandum expands on Better Buying Power (BBP) 2.0 guidance to assist the Military Departments with increasing effective use of PBL arrangements. This guidance is effective immediately.

PBL is synonymous with performance based life cycle product support, where outcomes are acquired through performance based arrangements that deliver Warfighter requirements and incentivize product support providers to reduce costs through innovation. These arrangements are contracts with industry or inter-governmental agreements. Attributes of an effective PBL arrangement include:

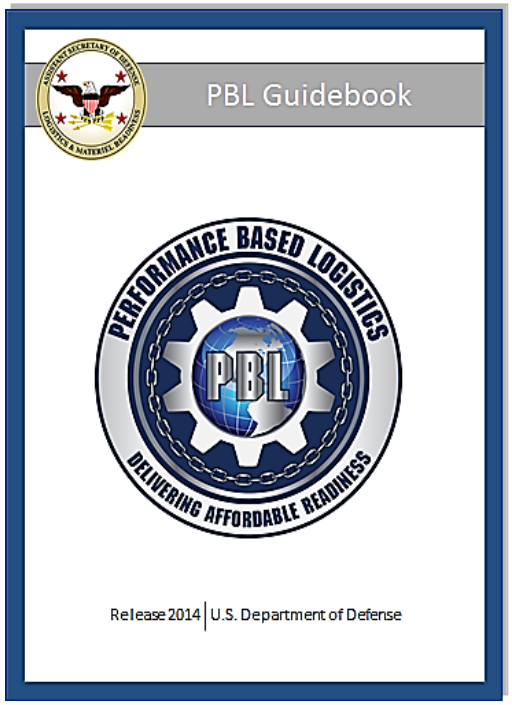
- Objective, measurable work description that acquires a product support outcome.
- Appropriate contract length, terms, and funding strategies that encourage delivery of the required outcome.
- A manageable number of metrics linked to contract requirements that reflect desired Warfighter outcomes and cost reduction goals.
- Incentives to achieve required outcomes and cost reduction initiatives.
- Risks and rewards shared between government and commercial product support integrators and providers.
- Synchronization of product support arrangements to satisfy Warfighter requirements.

- **Cultivating an Enabling Environment**:
  - Emphasize beneficial role of performance based arrangements.
  - Mitigate policy barriers to PBL adoption
- **Developing / Documenting Processes and Tools:**
  - PBL Guidebook
  - Sustainment reviews assess performance based arrangements
- **Creating a Cadre of PBL Professionals**:
  - Functional Leads (PM, LCL, CON, ENG, BFM) inform changes to workforce training and DAU learning assets
  - DAU maintain a PBL Community of Practice
  - CAEs encourage PBL training through

PBL Guidebook

A Reference Manual for Experienced Practitioners and a How-to Guide for New-to-PBL Logisticians

"When you pick up a book like this, what you want is the textbook way to do it, the potential problems you may encounter along the way, and how someone solved it in the past. And the Guidebook hits on all of these marks."
– PSM Interviewee



"The Guidebook addresses the best practices of PBL as we know them."
– PSM Interviewee

"There is a lot of good content in the Guidebook to help non-PBL experts."
–PSM Interviewee

12,000+ on-line views since release

Guidebook URL

https://acc.dau.mil/pbl-guidebook

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PBL Training and Implementation Initiative Goals

1. Develop and deploy more effective and efficient sustainment strategies
   - Better performance and/or
   - Better cost-per-unit of performance
- Leave behind an organic capability to develop and execute additional PBL arrangements without the need for additional contractor support
  - Provide the govt team education, training, and coaching
  - Provide tools, templates, and reference materials
  - FY 15 programs selected for assistance by the Services
  - Contract options with Deloitte exist for additional programs FY16-18

Provide Immediate Assistance to Workforce

PBL Training & Implementation Initiative

How:

- OSD competitive 4 year award to Deloitte to assist Services implement effective PBL arrangements
- Deloitte team will roll up their sleeves and work along-side Service professionals
  - To leave behind an in-house PBL capability

What Deloitte Support is Not:

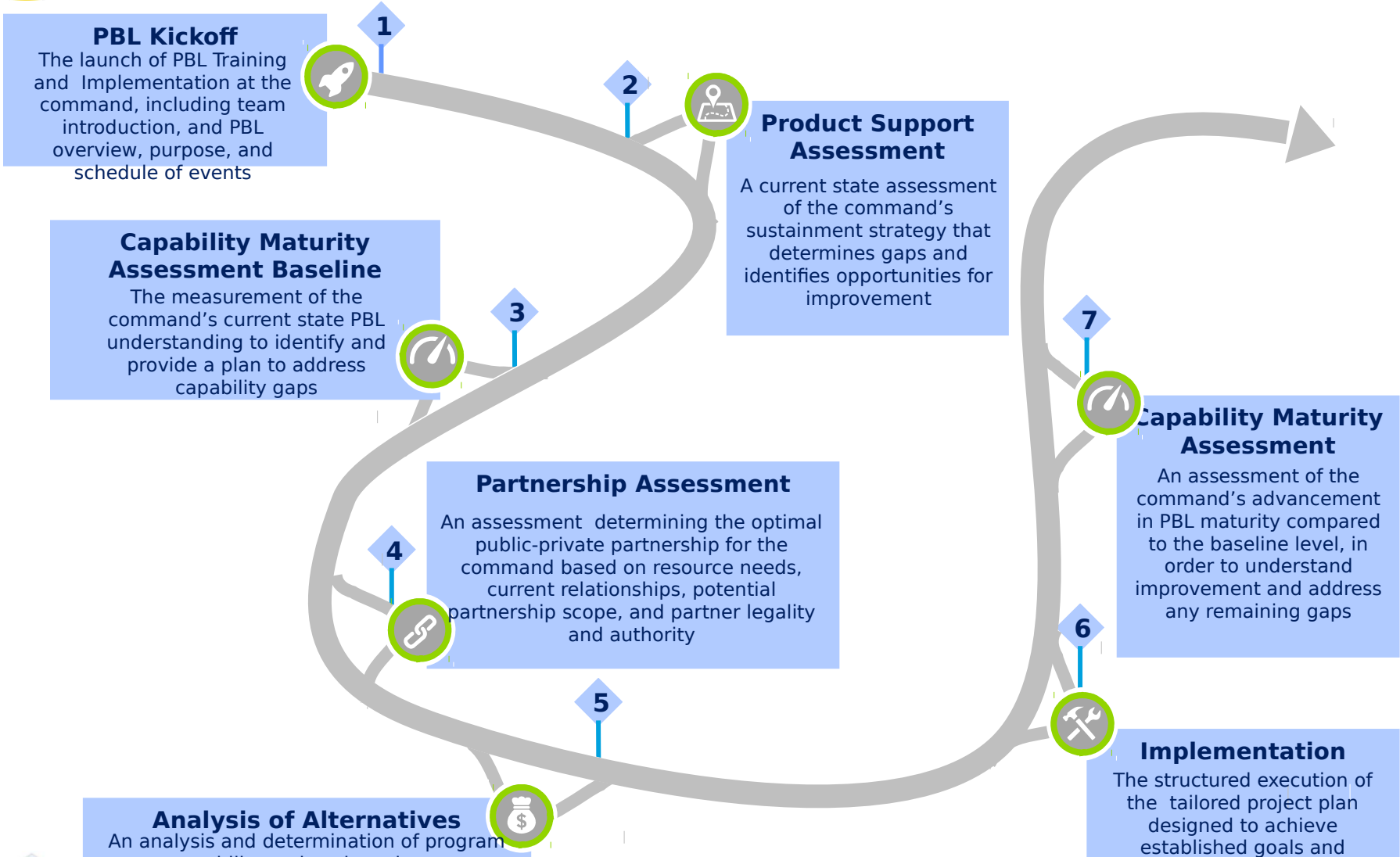
- Replacement for Service professionals' engagement in the project to perform the tasks
- Decision making

Keys to Success

- Visible leadership alignment and support for the initiative
- Right Service professionals on the team at the point of execution
- Proper team chartering, …responsibilities, authorities and accountability
- Expectation of recognition for successful execution by team members
- Immersion and repetition
- Learn by doing – hand-in-hand with Deloitte
- Robust [illegible] with discipline
- Transparency of initiative status up and down the chain of command

Commitment

PBL Training and Implementation Process


1
PBL Kickoff
The launch of PBL Training and Implementation at the command, including team introduction, and PBL overview, purpose, and schedule of events
2
Product Support Assessment
A current state assessment of the command's sustainment strategy that determines gaps and identifies opportunities for improvement
3
Capability Maturity Assessment Baseline
The measurement of the command's current state PBL understanding to identify and provide a plan to address capability gaps
4
Partnership Assessment
An assessment determining the optimal public-private partnership for the command based on resource needs, current relationships, potential partnership scope, and partner legality and authority
5
Analysis of Alternatives
An analysis and determination of program supportability options based on cost, benefits, and risk, which informs the formulation and recommendation of the optimal sustainment strategy
6
Implementation
The structured execution of the tailored project plan designed to achieve established goals and mitigate risks
7
Capability Maturity Assessment
An assessment of the command's advancement in PBL maturity compared to the baseline level, in order to understand improvement and address any remaining gaps

What's Next

- Components periodic PBL status reporting to USD(AT&L) at the Business Senior Integration Group meetings
- Additional OSD/Deloitte PBL training and implementation assistance to Components in FY16-18
- PBL Guidebook update with actual lessons learned from Component program / product offices
- Pursuit of broadly implementing effective PBL strategies and arrangements including organic PBL

PBL Guidebook – A Guide to Developing Performance-Based Arrangements

Background
- PBL Definition
- Policy and Guidance Overview
- History of PBL
- How Performance-Based Arrangements Work
- Aligning the Interests of Government and Industry
- Product Support Business Model

Standard and Repeatable Processes for PBL
- Step 1. Integrate Warfighter Requirements and Support
- Step 2. Form the Product Support Management IPT
- Step 3. Baseline the System
- Step 4.Identiy/Refine Performance Outcomes
- Step 5. Business Case Analysis
- Step 6. Product Support Value Analysis
- Step 7. Determine Support Method(s)
- Step 8. Designate Product Support Integrator(s) (PSI)
- Step 9. Designate Product Support Provider(s) (PSP)
- Step 10. Identify/Refine Financial Enablers
- Step 11. Establish/Refine Product Support Arrangements
- Step 12. Implement and Assess.

Resources

Appendices
- PBL Tenets
- PSMIPT Charter Example
- Knowledge Transfer and Knowledge-Sharing Resources
- Expansion of Key Considerations to Baseline the System
- PBL Metrics
- Calculating Weights from Pairwise Votes

Frames the PBL discussion & introduces the Product Support Business Model as a unifying PBL management construct

Introduces the 12-step Product Support Strategy Process Model used in the PSM Guidebook, and includes specific activities within each of the steps to focus on the "how" regarding PBL arrangement development and execution

Provides example artifacts and detailed references and tools to support system, subsystem or component PBL efforts.

"…designed from front to back as a reference manual for experienced practitioners and a how-to-guide for new-to-PBL logisticians."

Performance Based Logistics Training

Training Courses

- LOG 235 Performance-Based Logistics (Distance Learning)
- LOG 340 Life Cycle Product Support (Classroom)
- LOG 365 Executive Product Support Manager Course (Classroom)

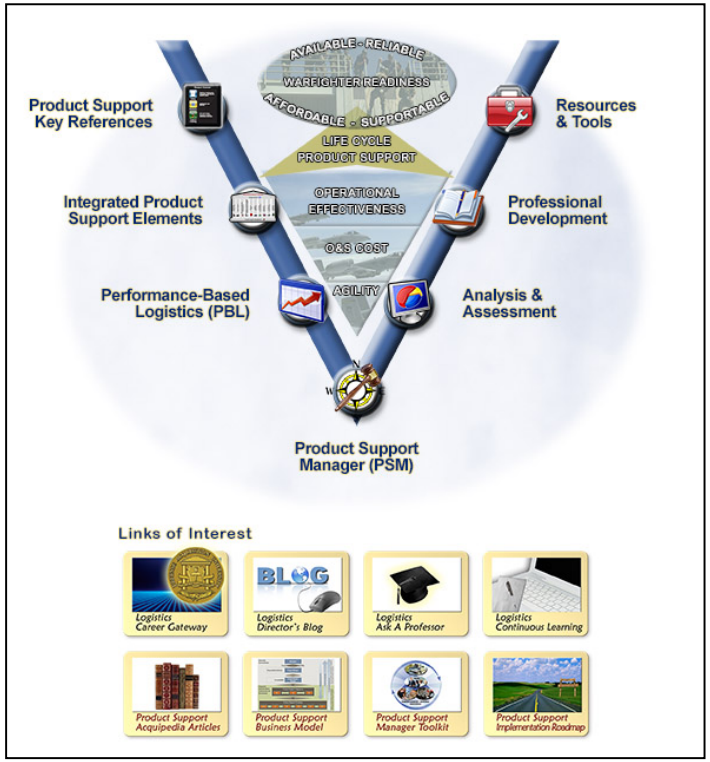
Continuous Learning Modules

- CLL 005 Developing a Life Cycle Sustainment Plan (LCSP)
- CLL 011 Performance Based Logistics (PBL)
- CLL 015 Product Support Business Case Analysis (BCA)
- CLL 031 Performance Based Logistics Contracting Strategies (In Development)
- CLL 001 Life Cycle Management & Sustainment Metrics
- CLL 035 O&S Cost Estimating for the PSM
- CLL 036 Product Support Manager (PSM)
- CLL 039 Product Support Requirements Identification
- CLL 040 Product Support Business Case Analysis (BCA) Tools

Targeted Training

- WS 001 Service Acquisition Workshop (SAW)

Communities of Practice: Logistics (LOG CoP) & PBL (PBL CoP)



Shortcut Link:
https://acc.dau.mil/log

Shortcut Link:
https://acc.dau.mil/pbl

"Go to" Information Sources for Life Cycle Logistics, Product Support & PBL

Questions

Back-up

Circumstances That May Make PBL Attractive

- Part demand and/or labor hour requirements have achieved a level of predictability post-fielding that supports consistency of pricing in the market of potential product support providers
- Number of potential product support providers is sufficiently large to serve as a competitive market, or leverage exists to structure internal competitive pressure in a limited or sole-source situation
- Sufficient operational life remains (typically 5-7 years) in the product to be an attractive capital investment opportunity for potential product support integrators and providers
- Common subsystems or components among platforms and/or Military Departments that, when combined, improve the government's negotiating leverage and offer industry the opportunity to benefit from scale economies
- Actual sustainment costs exceed lifecycle cost estimates, or should cost management indicates an opportunity to lower the cost of required performance
- System availability or derivative sub-requirement for subsystem or

What Makes a Good PBL Arrangement?

PBL: Product support outcomes acquired through performance based arrangements that deliver Warfighter requirements and incentivize product support providers to reduce costs through innovation

PBL Is…	PBL Is Not…
Objective, measurable work description that acquires a product support outcome	Government unilaterally de-scoping without consideration of impact to work scope
Appropriate contract length, terms, and funding strategy that encourage delivery of required outcome	Restrictive, time consuming government approval process that impedes productivity and engineering changes
Incentives to achieve required outcomes and cost reduction initiatives	Payment method that limits return the contractor can realize on investments that reduce demand
PSI actively managed by PSM; government inventory properly acquired, valued, and utilized	Stockpiled govt inventory by the PSP without a review of demand or accounted for IAW FIAR
Risks and rewards shared between government and commercial product support integrators and providers	One-sided risk mechanism for price increases outside contractor's control: • Contractor must decrease price to government for any price decreases it experiences • Contractor must demonstrate impact and provide offsets for any price increases it experience

Arrangements that include such attributes are not PBLs

Indications Of Effective PBL Arrangement

- Provider's performance consistently achieves the requirements of the arrangement
- The provider's future performance is predictable to a level of confidence that allows the program to manage risks to readiness and cost in a repeatable way
- The government gains experience (data) during the period of performance that allows it to refine subsequent performance based arrangements for continual productivity improvement and cost reduction

PBL Myths

Myth - PBL with a PSI at the Platform/System level is the first and best option for support

Reality – The scope of Product Support Integrator (PSI) responsibility is directly related to the scope of the PBL strategy, and can be implemented at any point on a continuum.

Myth - PBL circumvents 10 U.S.C. § 2464 Core requirements and the depot selection process

Reality – DoD Directive 5000.01 requires that "sustainment strategies shall include the best use of public and private sector capabilities through government/industry partnering initiatives, in accordance with statutory requirements."

Myth - PBL drives a two-level maintenance concept

Reality - While many successful PBL arrangements leverage a two-level maintenance strategy, a two-level maintenance strategy is not a requirement for, a definition of, or synonymous with a PBL support strategy.

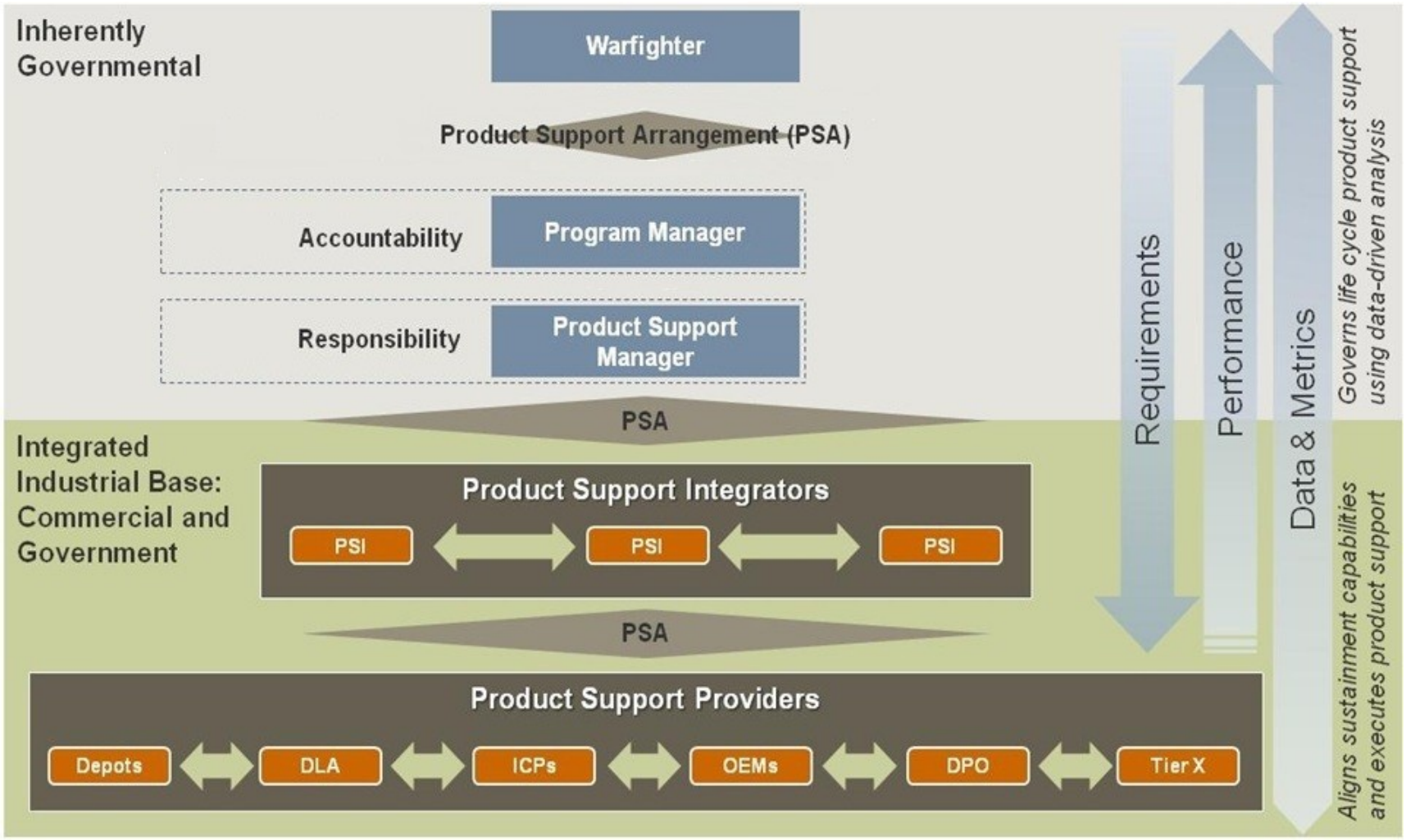
Myth - PBL is more expensive than traditional support

Reality –PBL arrangements which substantially adhere to generally recognized PBL tenets reduce DoD cost per unit of performance while simultaneously driving up the absolute levels of system, sub-system, and major component readiness/availability when compared to non-PBL arrangements.

Myth - PBL is a panacea that will correct all issues across the Integrated Product Support spectrum including reliability

Reality - PBL will not overcome a lack of sustainment planning, make up for an absence of effective program systems engineering, succeed with inadequate funding, mitigate the effects of poor leadership, or deliver instantaneous results.

DoD Product Support Business Model (PSBM)



PSM is the Warfighter's Principle Product Support Agent Responsible for Incentivizing PSI(s) to Achieve Warfighter Requirements

DoD Product Support Strategy Process Model

PBL Successful Examples

C-17

Arrangement:

- 8 year FPAF – Labor; CPIF – Material contract

Outcome:

- System Level Performance Based Logistics strategy consistently met or exceeded 97% availability requirement
- Process and reliability improvements, and opportunity to extend PBL philosophy to its suppliers, with projected savings of $12.4B over 30 years.

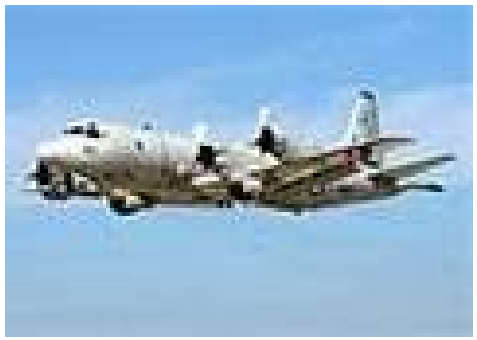
P-3 AN/APS-137D(V)5 Radar

Arrangement:

- 5 Year FFP contract

Outcome

- Sub-system level PBL that improved availability from <50% to >92%, and increased reliability by 121%.
- $4.5M in direct savings to the Fleet Flying Hour Program (FHP)



NAVSUP
Naval Supply Systems Command
Weapon Systems Support

PBL Successful Examples (Cont.)

High Mobility Artillery Rocket System (HIMARS)

Arrangement:

- 4 Year FPIF contract

Outcome

- On-time delivery >96%
- Cost per system-month decreased by76%

Navy Aviation Tires

Arrangement:

- 5 Year FFP contract (with 5 year options)

Outcome

- reduced backorders from 3,500 to 0
- Logistics response time from over 60 days to 2 days
- On-time delivery to over 99%
- Cost savings to flying hour program $46M

NAVSUP
NAVAL SUPPLY SYSTEMS COMMAND
WEAPON SYSTEMS SUPPORT

Why PBL Works

- DoD obtains comprehensive performance package
  - Not individual parts, transactions, or “spares & repairs”
- Approach totally reverses vendor incentive
  - Fixed price “pay for performance” contracts motivate PSI to reduce failures/ consumption
  - Incentivizes “**less I use, the more profit I can make**” vice a “more spares and repairs I can sell, the more profit I can make” mentality
- Long term commitment enables vendor to balance risk vs. investment
  - Product Support Integrators/Providers with system knowledge and investment oriented business models innovate to convert cost avoidance into performance gains
  - Motivate productivity through innovation; Incentivize product and process improvement
- Improves Parts Support
  - Material availability increases + Logistics Response Time (LRT) decreases resulting in Improved Readiness
- Optimizes Depot Efficiency
  - Repair Turn Around Time (RTAT), Awaiting Parts (AWP), & Work in Process (WIP) decrease
- Incentive to Invest in Reliability
  - Mean Time Between Failure (MTBF) improves
- Incentive to Invest in DMSMS & Obsolescence Mitigation, Improve Repair Processes, Reduce Costs, and Support the Warfighter

Focus on the Performance “End-State” … NOT the “How To”